



ANTHONY A. WILLIAMS
MAYOR

March 18, 2002

The Honorable Linda W. Cropp
Chairman
Council of the District of Columbia
John A. Wilson Building
1350 Pennsylvania Avenue, NW
Washington, DC 20004

Dear Chairman Cropp:

I am pleased to transmit to you my proposed FY 2003 Budget and Financial Plan: *One City, One Future*. At a time when economic and security challenges face our city and our nation, elected leaders must be especially disciplined and resourceful, making tough choices among competing priorities. This budget proposal – developed in consultation with you and the Council – reflects these difficult choices, and includes investments in areas of high priority to citizens. It also includes sacrifices in other areas as needed to preserve the city's strong financial recovery, which the Council and I have worked so hard to restore.

Specifically, this proposed budget supports four central goals that must guide decision-making at this time in the District's development:

- Invest in key priorities
- Reduce spending
- Provide tax relief only when affordable
- Obtain Congressional compensation for unfair restrictions

By fulfilling these requirements, the District Government will ensure that the city services and neighborhoods continue to improve, while meeting the highest standards of fiscal responsibility. The following sections present how the proposed FY 2003 Budget and Financial plan accomplishes these tasks.

Invest In Key Priorities

The District is undergoing a renaissance – in the neighborhoods, downtown, and in basic city services. Much work remains to be done, however, because too many neighborhoods and services still suffer from decades of neglect. This budget provides strategic investments requested by neighborhoods through the Strategic Neighborhood Action Plan process, and supports detailed commitments of what will be accomplished if and when this proposed budget is approved. The priorities of my administration continue to center around:

- Education
- Neighborhood quality of life
- The safety net
- Making government work
- Anacostia Waterfront
- Neighborhood Action

As you will see in this proposed budget, these priorities continue to receive the highest level of support. These investments do not come without sacrifice, however. In some areas, expenditures have been reduced to make funding available for higher priorities.

Reduce Spending

The District no longer suffers from rampant overspending by agencies due to poor financial controls. There remain, however, two troubled programs – special education and Medicaid – that will continue to drain the city's resources if not aggressively controlled. To provide this control, a cost-containment plan is being developed in each of these areas, and the agencies administering these programs will be held accountable for producing, at a minimum, \$50 million in annual savings by the beginning of FY 2005. Between now and then, this budget proposes the use of Tobacco Settlement savings from debt defeasance to finance the health-related and special education spending that is contributing to these pressures. I am declaring now to the affected agencies that these funds are limited to no more than two years. The Budget Support Act contains language to that effect and mandates that savings plans be submitted before the end of FY 2003. Based on these conditions, by FY 2005 tobacco funds should be available for the original purposes agreed upon by the Mayor and the Council.

In addition to controlling these costs, my administration identified strategic spending reductions across the government in order to balance the FY 2003 budget and make resources available for critical neighborhood priorities. I challenged my deputy mayors to review the baseline budget and identify opportunities to reduce costs, and this effort yielded \$90 million in operating cost reductions and \$250 million in capital project reductions across the government.

Provide Tax Relief Only When Affordable

As leaders across the nation are finding, economic booms often breed tax cuts that states later find they cannot afford. Nonetheless, I agree with the Council that we must aspire to reducing the tax burden for citizens and businesses.

The FY 2003 Proposed Budget and Financial Plan takes a balanced approach to tax relief. This budget suspends new personal income tax cuts until the District can accommodate them in a responsible manner. To ensure that unimplemented reductions in the Tax Parity Act will resume when affordable, I am proposing a prospective trigger mechanism, which is detailed in the Budget Support Act.

This budget also provides funding to support the planned reduction in the franchise tax. This reduction should proceed because it benefits small businesses and other companies that are the engine of our economic recovery, and who have had no tax cuts thus far under the Tax Parity program. In addition, this budget supports the property tax cap that limits to 25% increases in property taxes for those receiving their first annual assessment this year. This funding will ensure that residents will not be discouraged from living in the District by escalating property taxes. I would also note that the full cuts in tax rates for property have already gone into effect bringing our rates more in line with those of the metropolitan area.

Obtain Congressional Compensation for Unfair Restrictions

In closing, the financial challenges and sacrifices of the District must be understood within the larger context of our disparate treatment by the federal government. The District has a structural imbalance between its revenues and expenditures, and this imbalance is largely caused by the federal government's restriction on our ability to tax income earned within our borders. Every state in the Union has the ability to tax income earned therein, and that is an important part of a state's revenue.

Although elected leaders have worked for years to obtain compensation for this inequity, this year holds tremendous promise for substantial progress to be made. I believe that key congressional leaders are committed to addressing this problem and hope that the Council will be a full partner in making our case. The General Accounting Office and Congressional Research Service are studying our structural imbalance, and are preparing to issue their reports in the spring. This is a time of very significant movement, and it is coming to pass because we have demonstrated that we can govern effectively at the local level.

Congresswoman Eleanor Holmes Norton has introduced legislation to provide this compensation. The best thing that local leadership can do to support passage of this bill is to demonstrate to Congress our ability to make the sacrifices needed in order to maintain fiscal balance – as demonstrated in the Proposed FY 2003 Budget and Financial

Plan. Therefore, for the good of this cause, and for the well-being of our city and its neighborhoods, I look forward to working with you as the Council reviews and approves this budget.

Sincerely,

A handwritten signature in black ink that reads "Anthony A. Williams". The script is cursive and fluid, with the first name "Anthony" being more prominent than the last name "Williams".

Anthony A. Williams
Mayor